

**Newable**

**Submission to  
Small businesses and productivity inquiry**

**Business, Energy and Industrial Strategy Committee**

**March 2018**

# Executive Summary

- It is widely recognised that small and medium-sized enterprises (SMEs) form the “backbone” of the UK economy. Through innovating and disrupting incumbents, such businesses make an invaluable contribution to the UK – economically, socially, and by driving productivity across the spectrum.
- While this is to be welcomed, it is important to recognise that the process of SMEs scaling up, necessarily adding administrative and other responsibilities, can significantly hamper their productivity. This is where Newable can provide support – helping SMEs to overcome these barriers to realise their potential, and maximise their productivity.
- However, while we share the view that increasing productivity is essential to help SMEs to scale up, we urge an acceptance that this is not a goal for all companies – staying small is okay too.
- The central theme running through our response is that of the importance of access to fast, fair finance, which for many SMEs serves as a fundamental barrier to their growth. Therefore, in addition to our recommendations regarding management capability and other factors, we also urge steps to ensure that fewer SMEs find themselves barred from growth by difficulties in accessing finance.

# Introduction to Newable

## What Newable does

Newable is a company limited by guarantee. While we are profit-making, not having shareholders allows us to re-invest that profit back into expanding our products and services – to further support SMEs to thrive.

Established in 1982, we help around 15,000 businesses each year, supporting those working at the heart of the economy. We help them start, scale and internationalise their enterprises through our four main areas of activity:

- Lending
- Equity investment
- Advisory services
- Workspaces.

## Why Newable does it

Newable believes in creating economic growth. We recognise that SMEs account for 99% of all businesses in the UK, and that all big businesses were small once.

Scaling up does, however, remain a challenge – with access to finance and supply chains the two core issues. These are the barriers we seek to remove, thereby helping SMEs to scale up while maximising their productivity.

We also believe that all businesses must focus on delivering a demonstrable social impact, going beyond their bottom line to make a difference to the communities in which they operate. This is essential if business is to retain public trust.

## Newable's impact

- **Advisory services.** As one of the Department for International Trade's leading delivery partners, we support smaller businesses in London and the south east to reach target export markets. In the year to April 2017, we helped more than 900 businesses export for the first time, and helped generate exports to the value of £1.3bn. Working as a delivery partner to Innovate UK, we have also supported 770 early stage businesses in the last year.
- **Lending.** In the first 12 months of operation, Newable Business Finance provided SMEs with £11m of Responsible Finance-compliant, unsecured loans of between £26,000 and £150,000.
- **Equity investment.** Newable Private Investing (formerly London Business Angels) closed 35 deals in 2017, delivering £35m of funding into knowledge intensive businesses.
- **Workspaces.** We have developed 11 light industrial parks around London, turning neglected brownfield sites into economically productive land. These parks currently provide homes to 370 businesses.

# Key issues

## Management capability

**How adequate is the availability of, and funding for, training courses aimed at SME managers?**

**What more can be done to provide co-ordinated and high quality support to improve management capability throughout the UK?**

### The importance of management capability

1. The nature of SMEs, often having grown from start-ups, means that managers often come to their roles without significant experience or training. This lack of experience is compounded by the unique difficulties faced by such managers – which include a lack of support staff and funding challenges.
2. A certain degree of management capability is essential if a business is to be supported from concept to sustainability. This is particularly important given how central SMEs are to the health of the UK economy.

### Why management capability is lacking in SMEs

3. Newable's first-hand experience – working with founders, owners and managers of British SMEs – puts us in a unique position to observe the difficulties they encounter. In our experience, there are three main reasons why management capability can be considered to be lacking in SME managers.
4. Firstly, an SME manager may also be the owner of the business, or working very closely with them. Most people are not born to be a manager, and SME managers tend to fall into the role, or take it on by default. Few were educated and trained accordingly, and MBA programmes do not, by and large, cater for or attract them. Further, the concerns of a typical SME manager are as much practical as they are strategic. Their primary concern is not Brexit, but making payroll, paying rent, and ensuring that HMRC obligations are met.
5. Secondly, SME managers rarely find themselves supported by technical experts. Typically, they do not have staff members dedicated to issues such as auto-enrolment, rent negotiations, GDPR, securing funding lines, exporting to new overseas markets, and so on. SME managers are often facing these issues for the first time, and therefore have little or no experience on which to draw.
6. Thirdly, few SMEs have a culture of training, often considering it as a cost item depressing the bottom line, rather than an investment to enhance it. Many also feel there is a 'double whammy' with training – over and above the direct cost, there is the opportunity cost of not being 'in the business' for the duration. Depending on the sector in which the SME operates, the business may already be facing a significant amount of compulsory training relating to compliance of one nature or another. This further reduces their appetite to pursue training which might enhance their management capabilities.

## Newable's support for SME managers

7. So what can be done to improve matters? First is to recognise that there is not a one size fits all approach to management training. Newable offers three distinct types of support for SMEs – **mentorship**, **advice** and **consultancy** – all of which can help to develop management capabilities. In addition, we run bespoke, longer-term **programmes**, aimed at specific cohorts in the SME sector – such as female entrepreneurs, and SMEs in east London seeking to access supply chains. In our view, each of these services play a crucial role in improving business performance and productivity – and combine to create a wrap-around and tailored support service. For the reasons outlined above we seek to avoid providing “training” as a concept and instead present training content in different packages – seeking to attract managers to individual subjects of relevance for their business.
8. **Mentorship.** A business mentor can be best described as an ‘angel on your shoulder’. The Responsible Finance movement – members of which provide pre-and post-loan mentoring – provides a good example. Such mentoring can make a particular difference in accessing finance, with many SMEs failing to secure finance from the large retail banks due to avoidable errors in application forms. Once funding has been secured, mentors can also ensure that it is put to use in the most effective and efficient manner. We further believe that the reassurance of mentors having a physical presence is crucial – which is part of the reason we have opened a “Business Exchange” in Surrey (further outlined below).
9. **Advice.** Newable employs around 175 business advisors. These are senior specialists engaged in delivering contracts on behalf of the Department for International Trade and Innovate UK (as part of the Enterprise Europe Network). The advisory service is free to the end customer, the funding coming from government or government agencies. The support is invaluable to SMEs in unlocking growth.
10. **Consultancy.** Some areas of business activity are particularly technical, complex and/or time consuming. Application processes for highly competitive, publicly-funded grants are one such area. Our consultancy service helps SMEs maximise their chances of securing grant funding.
11. **Programmes.** Where we identify systemic challenges faced by specific cohorts within the SME sector, we develop comprehensive programmes in order to address them. One example is Fuelling Ambition, which seeks to support female entrepreneurs and women-led businesses across the journey from inspiration to investment. The programme includes one on one advisory sessions, workshops, and a major, agenda-setting conference (taking place on 10 May 2018) – followed by an investment-pitching event.
12. Separately to these types of support, our events team delivers over 380 SME B2B events each year. We find, for example, that webinars work well because the content can be consumed by the SME manager at a time most convenient to them. Workshops, being more interactive and participative while providing networking opportunities, are also useful.

## RECOMMENDATIONS

13. The British Business Bank could do more to fund and promote the Responsible Finance community of lenders, allowing them to expand their mentoring activities. Currently, post-loan mentoring extends for 12 months after funds are received. According to the Office for National Statistics (ONS), the one year survival rate of UK businesses as a whole was at least 90% for businesses born between 2011 and 2015. The most recently calculated five year survival rate is 44.1% – suggesting that mentoring beyond the first year would be invaluable.
14. **We recommend that the British Business Bank offers support to enable Responsible Finance providers to extend mentoring support from 12 to 24 months after funds have been received.**
15. **We also recommend that Innovate UK be encouraged to fund broader and more extensive programmes of support for SMEs. In particular, the “InFocus” programme should be expanded significantly.**

## Fair treatment

**How effective are measures in place to protect small businesses against systematic late payment practices of large companies?**

**Are the powers of the Small Business Commissioner to police poor payment practices strong enough?**

### For SMEs, late payment is the last step in the process

16. On launching this inquiry, the Committee Chair referred to “deliberate supply chain bullying”, naming Carillion specifically. The mistreatment of SMEs by larger companies is a major concern of ours, with late payment a particularly serious issue. Self-evidently, the current measures do not protect small businesses sufficiently.
17. We would, however, urge the committee to consider that payment is, for SMEs, the final step in the process of supplying either government or larger companies. The first stage – accessing the supply chains – also acts as a serious barrier for many SMEs.

### Challenges with corporate and government supply chains

18. Small businesses face considerable barriers when it comes to accessing supply chains of large corporates. Many take a distinctly unfriendly stance – generic email addresses on corporate websites being the extent of their encouragement. The general direction of travel is for such corporates to engage fewer, larger suppliers, in order to eke out the last penny from economies of scale. Too few are active or imaginative in creating marketplaces for suppliers, and there is a distinct lack of innovation in supply changes, which can only lead to a drag on productivity.
19. Governments have made big promises about increasing the proportion of government expenditure being made to SMEs by setting challenging percentage targets. However, the National Audit Office concluded in March 2016 that Government would be more likely to realise the benefits of using SMEs if it took a more focused approach to improving access for small businesses. As an example, Newable Private Investing invests in early stage medical technology companies – a sector identified by the Industrial Strategy as being one where the UK is world class. However, our client companies often comment that it is easier to sell to governments overseas than to our own. The NHS ‘open market’ is notoriously difficult for suppliers to navigate.

### Potential solutions

20. There are isolated, but instructive, examples of where opportunities exist. We have, for example, seen positive change occurring as a by-product of the development planning process. Big developers are being instructed to engage with small, local suppliers as part of section 106 obligations. Unfortunately, we witness too many instances where corporates do not know how to find SMEs, and SMEs do not know how to engage the right channels within corporates, or how to comply with the inevitable processes. In such cases, SMEs who could benefit from the fulfilment of section 106 obligations – such as local painters and decorators – lose out.

21. This problem gave rise to Newable’s “Get Ready to Supply” programme, delivered in association with the JP Morgan Foundation, which brings together corporates and SMEs at “Meet the Buyer” events. In the last two years, we have introduced 390 opportunities to more than 106 inner-London SMEs, resulting in 26 contracts being won.
22. It is clear that many SMEs view the public sector tendering process as confusing, time-consuming and only applicable to companies already in that supply chain. They also have the perception that payments from government agencies might not be timely, which will affect their cash flow. These issues become barriers that preclude SMEs from tendering.
23. Therefore, increasing awareness of the opportunities, adopting simpler tendering processes, and providing support with the procurement documentation (i.e. simpler pre-qualification standards), would make supply chains significantly more accessible for SMEs. In addition, most public sector opportunities are large contracts, but in many cases the contract could be split into smaller lots more accessible to smaller local businesses.

### Small Business Commissioner

24. Newable welcomes the appointment of the Small Business Commissioner. We, like the SMEs we serve, look forward to learning more about the Commissioner’s remit, powers, and influence.
25. We believe that the issue of bad business practice ultimately stems from a bad business culture. While the Small Business Commissioner might be able to identify incidences of bad practices, and may even be empowered to apply corrective measures, Government needs to do more to promote a higher standard of business ethics. This is not impossible – progress is being made on the gender pay gap, female representation on boards, greater ethnic inclusion, and so on. The reality of an economy that works for all would also see a radically different reconfiguration of the relationship between the big and small.

### RECOMMENDATIONS

26. The creation of a Small Business Commissioner provides an invaluable opportunity to re-shape the relationship between government and SMEs, as well as between SMEs and larger corporates.
27. **The Commissioner’s remit should be expanded. It should have powers to recommend changes – such as those we have suggested above – to make it easier for SMEs to supply to government. The role should also have the power to examine, and provide recommendations on, the broader landscape of SME finance.**
28. **In terms of supply chains, the public sector should, where possible, split large contracts into smaller lots, which are more accessible to SMEs.**

# Improving productivity

**What access do small businesses have to advice on improving efficiency and productivity through adoption of best business practices?**

**What more should the Government do in this respect?**

**Access to fast and fair finance is a more fundamental constraint on productivity than a failure to adopt best practices**

29. It has been said that the UK's productivity challenge is particularly pronounced among smaller firms. As referenced above, the process of scaling up can also present significant challenges to SME productivity.
30. It goes without saying that this is a significant concern. We would, however, suggest that, for such firms, access to fast and fair finance is a more important issue than the adoption of best business practices. It is only with such access that SMEs are able to retain the benefits of being a small business (such as flexibility, and the ability to react quickly to changing circumstances) while also scaling up and improving their productivity.
31. A recent survey by the British Business Bank found that 100,000 businesses had formal applications for £4bn of loans rejected by large retail banks in one year. The Bank Referral Scheme was intended to help such businesses – but is largely accepted as having significantly underperformed. This is a serious constraint on improving SME productivity.
32. This is not the only problem. The inordinate length of time – weeks, if not months – that it takes banks to process successful applications and release funds, means that businesses cannot buy the equipment they need or pursue their investment plans, creating a significant drag on productivity. This is also an issue facing the Government's Start-Up Loans product.
33. This contrasts with Newable's own "Business Finance" platform, where SMEs who apply on a Monday can, assuming they pass through underwriting, receive funding to fuel their growth on a Friday. TravelJoy, a hostel company, provides an example of how this directly influences productivity. Through Newable, the business received a loan in time for them to install triple-bunk beds and capture additional bookings over Easter.
34. As referred to above, Newable has also recently opened our first "Business Exchange" – providing physical premises where SME managers can discuss their finance options, and receive advice on-site from our mentors. Following the successful launch in Surrey, we have ambitions to create a national network of similar exchanges.

## RECOMMENDATION

35. While it is right to look at the issue of best business practices, we would urge the committee to examine the lack of access to fast, fair finance – which is a more fundamental constraint on productivity. **The Government should compel major retail banks to promote Responsible Finance providers to SMEs refused loan finance.**

# Scale-up

**For those businesses wanting to scale-up, how effective is the promotion of available government support?**

**Do existing concessions for small businesses serve to discourage growth?**

**What impact has the Scale-Up Task Force had so far?**

## Promotion of government support for scale-ups

36. Helping SMEs to scale-up has become a popular concept. “Scale-ups” are undeniably important to the UK economy, with the potential to create new and high value jobs. They also have greater potential to be competitive on a global stage, and tend to be the companies which disrupt incumbents. The Industrial Strategy and Patient Capital Review have created a lot of interest and ideas in this field. We welcome this live and active debate.
37. We would, however, suggest that, too often, there is a sense that the goal or measure of success is only the creation of “unicorns”. We feel that this is not a sustainable goal.
38. In our view, the real opportunity is to create a conveyor belt of exciting, sustainable, knowledge intensive companies maturing to provide the UK with a “middlestand” of companies transforming the economy’s productivity, creating high value jobs, and making the UK more competitive internationally. The cultivation of such companies is also likely to contribute to regional economic diversification.
39. To this end, we recommend a more finessed approach to scale-ups, which would provide different routes to different destinations. For example, some SMEs will be family businesses seeking to achieve sustainability, some may wish to focus on regional growth, while others will aim for “unicorn” status. Such an approach would allow a better identification and provision of tailored, effective support.

## Concessions for small business do not discourage growth

40. Part of this approach is to recognise that many companies – such as lifestyle businesses, or small family concerns – may wish to stay small. Current concessions, such as they are, that are offered to these types of business do not inhibit significant growth as that is not part of their plan, but they do help to keep them sustainable.
41. Looking at more knowledge intensive businesses looking to scale up, most that Newable deal with would not consider that they receive special treatment or concessions from government. To that extent, concessions do not act as a discouragement. However, the changes announced in the 2017 Autumn Budget concerning knowledge intensive businesses and entrepreneurs’ relief do serve as active encouragements to growth.

## Scale-Up Task Force

42. We have not felt the impact of the Scale-Up Task force to date. To ensure that the body has as great an impact as possible, we would suggest it adopts a renewed and sustained focus on the difficulties SMEs face in accessing finance.

## RECOMMENDATION

- 43. We recommend a more nuanced approach when it comes to scale-ups. It is not all about nurturing the next “unicorn”. Rather, it is about creating a large cohort of sustainable, “mittelstand”, businesses, capable of transforming the productivity of the UK economy. We would welcome the opportunity to discuss this further.**

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